

Message Text

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ACTION EB-11

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POUCHED FOR INFO ALL CONSULATES IN CANADA

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SUBJECT: ENERGY: FEDERAL-PROVINCIAL ENERGY CONFERENCE

1. FOLLOWING ARE SUBSTANCE OF PRINCIPLES ON OIL AND GAS
POLICY PUT FORTH BY ENERGY MINISTER MACDONALD AT JANUARY 22
AFTERNOON SESSION OF FEDERAL-PROVINCIAL ENERGY CONFERENCE:

(A) TO ACHIEVE AIM OF SELF-SUFFICIENCY DOMESTIC OIL
PRICING POLICY MUST ESTABLISH AND MAINTAIN PRICE TO
CONSUMERS WHICH WILL ENSURE CONTINUING DEVELOPMENT OF
THE RESOURCE BASE.

(B) ALL CANADIANS SHOULD PAY SAME BASIC PRICE,
ASIDE FROM DIFFERENCES IN TRANSPORT COSTS.

(C) DOMESTIC PRICE NEED NOT COINCIDE CONTINUOUSLY
WITH INTERNATIONAL PRICE AT MONTREAL, PARTICULARLY IF
LATTER PRICE FAILS TO REFLECT REAL SUPPLY AND DEMAND
FORCES, I.E., ARE TOO HEAVILY INFLUENCED BY WORLD
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SUPPLY DISLOCATIONS AND PRODUCING COUNTRY TAXING

POLICIES.

(D) TO DEGREE AND DURING PERIOD WHEN ESTABLISHED DOMESTIC PRICE IS BELOW INTERNATIONAL PRICE, EASTERN CANADIAN CONSUMERS DEPENDENT ON IMPORTS WILL BE PROVIDED A "CUSHION."

(E) TO DEGREE THE ESTABLISHED DOMESTIC PRICE EXCEEDS CURRENT FROZEN PRICE, WINDFALLS ON EXISTING CONVENTIONAL OIL FLOWS SHOULD BE SHARED BY:

(1) PRODUCERS TO PROVIDE REASONABLE RETURN ON PAST INVESTMENTS AND TO MEET RISING COSTS AND EXPANDING CAPITAL REQUIREMENTS

(2) PRODUCING PROVINCES TO RECOGNIZE OWNERSHIP OF DEPLETING CONVENTIONAL RESOURCES

(3) FEDERAL GOVERNMENT TO MEET NEEDS OF EASTERN CONSUMERS OF IMPORTED OIL AND TO PROVIDE SOURCE OF CAPITAL FOR DEVELOPMENT OF OIL AND GAS SYSTEMS. IN ADDITION, BROADER ECONOMIC DEVELOPMENTS OF INTEREST TO WESTERN CANADA MUST BE SUPPORTED AS WELL AS PROVINCIAL EQUALIZATION LIABILITIES WHICH MAY ARISE.

(F) NEW PRICING POLICY FOR NATURAL GAS TO INDUCE RAPID EXPANSION IN RESERVES; RISE MUST BE TO LEVELS MORE CONSISTENT WITH COMPETING FUEL PRICES. RESULTING WINDFALLS ON EXISTING GAS POOLS SHOULD BE SHARED ON SAME BASES AS (E) ABOVE.

(G) OIL AND GAS UPWARD PRICE ADJUSTMENTS SHOULD BE ACHIEVED OVER PERIOD LONG ENOUGH TO EASE ADJUSTMENT PROBLEMS BUT NOT SO LONG AS TO REATRD FURTHER OIL AND GAS DEVELOPMENT.

(H) FEDERAL COOPERATION WITH PRODUCING PROVINCES TO CREATE MANAGEMENT MECHANISMS FOR OIL AND GAS SYSTEMS WHICH WOULD ASSURE EQUITY OF TREATMENT OF PRODUCING AND CONSUMING INTERESTS.

(I) WITHIN SELF-SUFFICIENCY CONTEXT, CANADA WOULD UNCLASSIFIED

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STILL CONTINUE TO EXPORT ENERGY COMMODITIES AND TO PROVIDE MARKET FOR CRUDE EXPORTS OF OVERSEAS COUNTRIES.

2. SPECIFICS OF FEDERAL GOVERNMENT'S PROPOSAL ON PRICE ARE:

(A) CONTINUATION OF "VOLUNTARY" OIL PRICE FREEZE UNTIL END OF WINTER (APPRENTLY DEFINED AS MAY 1), WITH

EXTENSION OF FREEZE TO EASTERN CANADA TO PREVENT ANY FURTHER INCREASES IN THAT REGION.

(B) AT END OF FREEZE, WESTERN WELL-HEAD PRICES WOULD RISE TO PRESENT EQUIVALENT MONTREAL INTERNATIONAL PRICE, NAMELY \$6.00 PER BARREL EXCLUSIVE OF TRANSPORT COSTS. THIS WOULD BE \$2.00 PER BARREL ABOVE CURRENT AVERAGE WELL-HEAD PRICESM

(C) FURTHER PHASING-UP FROM \$6.00 PER BARREL WOULD TAKE PLACE OVER FURTHER TWO-YEAR PERIOD.

(D) LIMITATION OF INCREASE TO \$2.00 PER BARREL, WHILE LESS THAN ULTIMATE INCREASE, REPRESENTS MAXIMUM INCREASE TO WHICH CANADIANS SHOULD BE SUBJECT. SUCH INCREASE CALCULATED TO RAISE CONSUMER PRICE INDEX BY FULL POINT.

(E) INCREASE IN WELL-HEAD NATURAL GAS PRICE WILL BE SUCH THAT WHEN OIL REACHES \$6.00 THE UNDER-PRICING OF GAS IS NOT WORSENER. HOWEVER, GAS PRICE MOVEMENT MAY LAG DUE TO EXISTENCE OF LONG-TERM CONTRACTS.

(F) FLOW OF REVENUES AFTER PRICE MOVES TO \$6.00 SHOULD BE DEVOTED IN SUBSTANTIAL PART TO FURTHER CAPITAL PURPOSES, WHETHER IN OIL AND GAS, ENERGY DEVELOPMENTS, OR ECONOMIC DEVELOPMENT GENERALLY.

3. CONCERNING DISPOSITION OF EXPORT TAX REVENUES, MACDONALD PROPOSED FOLLOWING SCENARIO:

(A) PRIOR TO JANUARY 31, 1974, ALL EXPORT TAXES UNCLASSIFIED

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ARE BEING RETURNED TO PRODUCING PROVINCES: 50 PERCENT DIRECTLY AS GENERAL REVENUES AND 50 PERCENT TO SUPPORT UNSPECIFIED ENERGY DEVELOPMENTS.

(B) 50 PERCENT OF EXPORT TAX FOR FEBRUARY AND MARCH WILL ALSO BE RETURNED TO PRODUCING PROVINCES DIRECTLY AND THE OTHER 50 PERCENT TO EASTERN CANADA AS SUBSIDY FOR HIGHER IMPORT COSTS.

(C) IF SIMILAR EXPORT TAX IS ENACTED FOR APRIL, APPORTIONMENT WOULD BE SAME AS (B) ABOVE.

(D) AS SUMS AVAILABLE TO FEDERAL GOVERNMENT FROM FEBRUARY-APRIL EXPORT TAX WOULD BE INSUFFICIENT TO COVER COST OF EASTERN "CUSHION", AN ADDITIONAL

FEDERAL APPROPRIATION WOULD BE NECESSARY.

4. MACDONALD EMPHASIZED THAT PROGRAM OUTLINED ABOVE
DEPENDS ON AGREEMENT OF PROVINCES AND INDUSTRY. HE
SPECIFICALLY ASKED ALBERTA AND SASKATCHEWAN TO AGREE TO
ADMINISTER THEIR PRESENT LEGISLATION IN WAY WHICH WILL
NOT FORCE ABANDONMENT OF PRICE FREEZE BEFORE WINTER'S
END.

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